

DISCOVERY LIMITED  
(Incorporated in the Republic of South Africa)  
(Registration number 1999/007789/06)  
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("Discovery" or "the Group")

## Update regarding the COVID-19 pandemic and trading statement for the year ended 30 June 2021

Discovery's results for the full year ended 30 June 2021 (reporting year or year under review) were characterised by three key attributes:

- A multifaceted focus on the impact of and response to the COVID-19 pandemic, which has been profound and tragic over the period. In terms of the Group's financial results, the notable material impact has been the effect of elevated mortality in South Africa (SA) in Discovery Life.
- Notwithstanding the above, an excellent operational performance, with robust growth, retention and strong actuarial experience across the Group.
- A pivot to growth by capitalising on the applicability of its Vitality Shared-Value model to ensure growth in local and global markets, and excellent traction in Discovery's new and emerging businesses.

### 1. COVID-19 impact on results

The financial year under review was framed by the COVID-19 pandemic, the year commencing during the first wave of the pandemic and ending during the height of the third wave in SA. The epidemic in SA has been significantly worse than anticipated at the end of June 2020. At that time, Discovery projected a severe second wave for SA, but the actual second wave experience was still somewhat worse than expected due to the emergence of the Beta variant. In addition, SA suffered a very significant third wave, driven by the Delta variant. By contrast, whilst the United Kingdom (UK) also experienced a severe second wave, it has largely avoided any negative mortality impact in its third wave due to its extraordinarily effective and early vaccine campaign. On a risk adjusted basis, we believe that the South African epidemic has turned out to be significantly more severe than the epidemic in the UK. In the UK, the extended lockdowns caused by the second and third wave of infections did however cause further delays to elective medical procedures.

Despite these complex and varied dynamics (also refer discussion on VitalityHealth below), the Group was remarkably resilient across all its businesses, with the notable material impact on operating profit being the effect of elevated mortality in SA experienced within Discovery Life:

- At the end of the previous year, Discovery Life established a R2 billion provision for retail claims and lapses based on its modelling at the time, which had a net impact of R1.1 billion on the profits after discretionary margins for the previous year. During the current reporting year under review, this provision proved adequate for the retail business given excellent lapse experience which mitigated the increased mortality. However, given the expected mortality claims from the run-off of the third wave beyond the reporting year and expected claims arising from an anticipated fourth wave, an additional retail provision was set up at the end of the year under review.
- Due to the short term contract boundaries of group life business, Discovery Life could not establish a provision for future group life claims at the end of the previous year. As a result, the full impact of the high in-period group life COVID-19 claims caused further strain in the reporting year. At the end of the year under review, group life provisions have been made to the extent that existing contracts are deemed to be onerous.

The combined impact on Discovery Life's overall operating profit from the above factors was R2.4 billion for the year under review.

### 2. Summary of results

Discovery's results for the full year ended 30 June 2021 were robust, summarised by the following:

- Normalised profit from operations is expected to increase between 5% and 10% for the year under review, notwithstanding the R2.4 billion COVID-19 impact for Discovery Life as compared with the R1.1 billion for the year ended 30 June 2020 (the prior year) (see Table 1 below).
- New Business API (Annual Premium Income) increased by 11%, while retention levels across the group were excellent and better than expected (see Table 2 below).

- Performance was robust across all the Established businesses, outside of the COVID-19 driven elevated mortality in Discovery Life; Emerging businesses delivered particularly strong growth, with normalised profit from operations expected to increase between 43% to 48%; and spend on new initiatives reduced between 5% to 10% while delivering exceptional growth in new business, with new business API for new initiatives increasing 156%.
- Normalised Headline Earnings (NHE) are expected to decrease by between 5% and 15%, impacted by mark-to-market foreign currency losses arising from a recovery of the Rand during the reporting year compared to a gain in the previous financial year.
- Headline Earnings (HE) are expected to increase between 900% and 920% as the stabilisation of long term interest rates in SA and the UK resulted in materially lower economic basis changes than the prior year.

### 3. Breakdown of results

The following table demonstrates the expected contribution of key businesses to the growth in normalised profit from operations, of between 5% and 10% compared to the prior year.

Table 1: Forecast change in normalised profit from operations over prior year

Business (Rm)	Normalised profit from operations % change 12 months ended 30 June 2021 to 12 months ended 30 June 2020
Discovery Health	5% to 10%
Discovery Life	<b>Lower by 52% to 57%</b>
Discovery Invest	28% to 33%
VitalityHealth	12% to 17%*
VitalityLife	335%-340% (reversal of prior year loss)**
<b>Profit from Established businesses</b>	<b>-3% to 2%</b>
Discovery Insure	0% to 5%
Vitality Group	33% to 38%
PingAn Health	123% to 128%
<b>Total Emerging businesses</b>	<b>43% to 48%</b>
<b>New initiatives (Excluding Bank)</b>	<b>Spend reduced by 5% to 10%</b>
<b>Discovery Bank</b>	<b>Spend reduced by 5% to 10%</b>
<b>Normalised Profit from operations</b>	<b>5% to 10%</b>

\* For VitalityHealth, a key feature of the UK health market in the financial year has been the continued delay in claims catch-up relating to elective medical procedures with the second and third wave of infections. Vitality Health has modelled the expected catch-up in claims into future periods and is managing the underlying claims experience over time in the following two ways. Firstly, a £14 million unearned premium reserve (UPR) has been established at the end of the reporting year to cover delayed claims that are anticipated within the short-term contract boundaries. Most anticipated claims are however expected to transpire over a much longer period and mostly well beyond the short-term nature of the insurance contract boundaries; this presented the business with an opportunity to accelerate the repayment terms of its existing reinsurance programme in the reporting year, with a net in period cost of £40 million, which results in better matching the underlying claims experience expected from the catch-up in claims in future years. VitalityHealth's robust operating profit in the table above is after the effect of these factors.

\*\* VitalityLife performed better than expected over the financial year both in terms of mortality and lapses and a relatively immaterial additional provision is deemed necessary to cover the potential effects of a possible 4<sup>th</sup> wave in the UK.

The following table demonstrates the contribution from the businesses to the 11% growth in new business API (9% core new business growth) over the reporting year.

Table 2: New business annualised premium income for the Group for the twelve months ended 30 June 2021

Business (Rm)	New business % change 12 months ended 30 June 2021 to 12 months ended 30 June 2020
Discovery Health, including new closed scheme	6%
Discovery Life	-1%
Discovery Invest	3%
Discovery Insure	18%
VitalityHealth	10%
VitalityLife	-9%
PingAn Health (25% interest)	10%
Other new businesses	156%
<b>New business API of Group including New Closed Schemes</b>	<b>11%</b>
<b>Core new business API of Group</b>	<b>9%</b>

#### 4. Trading statement

As part of the Group's interim reporting, shareholders and noteholders were advised that Discovery's earnings per share (basic) and headline earnings per share (basic), for the year ended 30 June 2021, were expected to be at least 20% higher than that reported for the year ended 30 June 2020. Shareholders and noteholders are now further advised that:

- Earnings per share (basic) are expected to be between 3135% and 3155% higher (to between 478.8 cps and 481.7 cps compared to reported 14.8 cps for the prior year).
- Headline earnings per share (basic) are expected to be between 900% and 920% higher (to between 450.0 cps and 459.0 cps compared to reported 45.0 cps for the prior year).
- Normalised headline earnings per share (NHEPS) (basic) will be between 5% and 15% lower (to between 485.0 cps and 542.1 cps compared to reported 570.6 cps for the prior year).

Earnings per share additionally benefited from a material unrealised gain of R537 million from the transaction in which Cambridge Mobile Telematics (CMT) acquired TrueMotion through an issuance of shares, as announced by CMT on 16 June 2021.

#### 5. Capital and liquidity

The Group is robust under high stress scenarios, with sufficient solvency and liquidity to weather uncertain conditions brought about by COVID-19. Capital ratios remain resilient and the liquidity buffer is expected to remain within the target range. These ensure Discovery is well placed to capitalise on the increasing importance of health, wellness, and resilience and the growing global relevance of its Shared-Value Insurance model.

Discovery intends to report its full year 2021 results on 2 September 2021. The information contained in this announcement, including any forecast financial information on which this trading statement is based, is the responsibility of the board of directors of Discovery and has not been reviewed and reported on by Discovery's external auditors.

Sandton  
27 August 2021

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